



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON

Monday, June 24, 2013

2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:30 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Prof. Dennis Hoffman, Vice-Chair

Absent: Mr. Mike Smarik

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the April 22, 2013 Investment Committee Meeting

Motion: Prof. Dennis Hoffman moved to approve the minutes of the April 22, 2013 Investment Committee meeting. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding Investment Program Updates

Mr. Gary Dokes, CIO, provided updates of the program as they related to Asset Class Committees, tactical portfolio positioning, strategic asset allocation implementation, IMD belief systems, IMD House Views, the weighting of each asset class, IMD projects, activities and research initiatives.

Mr. Kien Trinh, State Street Investment Analytics, presented the State Street Risk Report, dated as of April 30, 2013. He discussed the monthly reallocation summary, month-end risk profile, and total plan overview on exposure.

Mr. Connelly inquired about the Monthly Reallocation Summary and requested that, going forward, the portfolio reductions and additions from the current and previous month (between IC meetings) be included on the monthly reallocation summary page.

With regard to total plan exposure, international equity exposure, and total fixed income exposure, Mr. Connelly would like a legend within the footer included which would detail the meaning of:

- Blended U.S. Benchmarks
- Blended Non U.S. Benchmarks
- Blended FI Benchmarks

Mr. Trinh agreed to incorporate the mentioned changes.

Mr. Dokes briefed the Committee on the ASRS Securities Lending Risk Metrics Exhibit.

4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Investment Performance Report and Total Fund Q1-13

Mr. Dan LeBeau, NEPC Consultant, provided background information and the objective of the NEPC independent reports as they related to: ASRS Strategic Asset Allocation Policy (SAAP) compliance, Total Fund and Asset Class Analysis, Asset Class Committee monitoring, as well as NEPC perspectives on the market, environment and investment outlooks.

Mr. Connelly requested a few changes to the NEPC report going forward:

- Asset Class Performance vs. Benchmark: add the inception date for the Private Markets Asset Class due to the fact that Internal Rate-of-Returns (IRRs) are calculated on an inception date basis.
- Add a 10-year value for the total fund attribution analysis

Professor Hoffman requested that the total fund risk statistics vs. peer universe pages include the number of peers contained in each peer group universe comparison.

Mr. LeBeau agreed to incorporate the mentioned changes into the next NEPC report.

Professor Hoffman also inquired about the wide variance between the cash in and cash out amounts in the cash flow requirement slide of the presentation. Mr. Eric Glass, Private Equity Portfolio Manager explained the variance as monies set aside for future funding of mandates as well as trades that are settling on the day the funding is going out.

Mr. Connelly inquired about the SAA policy compliance as it relates to the procedure for being outside of the policy range. Mr. Dokes explained the rebalancing or repositioning rules which are outlined in Strategic Investment Policy 002, i.e., mandatory rebalancing or repositioning to move back within the policy target.

5. Presentation, Discussion, and Appropriate Action Regarding Total Fixed Income Asset Class Presentation

Mr. Dokes introduced the Total Fixed Income Asset Class presentation; Mr. Al Alaimo, Fixed Income Portfolio Manager, discussed key areas including the fixed income House Views, market conditions, fixed income style composition, performance and managers' summaries.

Mr. Connelly commented about the performance of Shenkman, an ASRS Fixed Income High Yield (HY) Manager. Mr. Alaimo commented on Shenkman's conservative strategy and attributed their HY Index underperformance to the investing in more liquidity, higher quality HY bonds which have underperformed lower quality HY bonds over the past 1-2 years. Mr. Alaimo also stated that the majority of HY managers during that time underperformed the HY Index however outperformed core bond managers.

Mr. Connelly asked staff to include ASRS' opportunistic bond managers' expected return performance in the exhibit displaying actual manager performance. Mr. Alaimo confirmed that this exhibit will be updated then proceeded to note that overall ASRS opportunistic debt managers are performing above expectations.

Mr. Dokes requested that Mr. Alaimo comment on the performance of Avenue Europe Special Situations Fund II (U.S.) L.P. Mr. Alaimo explained their structure as being focused on distressed corporate debt in Europe. The recent performance was primarily to one particular investment where fraud was discovered within the company and thus eroded investor confidence which led to a lower bond valuation for the company. Mr. Alaimo noted his disappointed in this occurrence but maintains confidence in Avenue and in the attractive investment opportunities that are and may continue to be available in Europe.

Mr. Connelly asked Mr. LeBeau to comment on ASRS Fixed Income's asset class. Mr. LeBeau did not have any exceptions and concurred with Mr. Alaimo's previous comments that private debt appears to be the most attractive space within fixed income.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Beliefs

Mr. Matson provided a summary of the Investment Beliefs and described the paradigm the ASRS investment team utilizes to ensure overall consistency and congruency on how the team determines and implements different investment strategies. Mr. Matson walked through the interpretation of the 10 themes within the document and noted the changes which were made in efforts to more clearly describe and update the ASRS Investment Beliefs.

7. Presentation, Discussion, and Appropriate Action Regarding the Investment Policy Statement (IPS)

Mr. Dokes provided a summary of the Investment Policy Statement (IPS) and noted that the proposed modifications were made to be consistent with changes in the Board-approved ASRS Strategic Plan and the Investment Beliefs that Mr. Matson presented in agenda item six.

The Investment Committee noted the NEPC report should be changed to list the current Goals within their report as Objectives so it is consistent with the ASRS Strategic Plan and IPS.

Motion: Professor Hoffman moved that the IC recommend to the Board the approval of proposed changes to the ASRS Investment Policy Statement as denoted in Exhibit 1. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

8. Requests for Future Agenda Items

Mr. Dokes plans to follow up with the IC Chair to solidify the topics and outside participants for the IMD/IC Investment Roundtable.

9. Call to the Public

No members of the public requested to speak.

10. Adjournment

The meeting adjourned at 5:30 p.m.

Respectfully submitted,

Chasity Byrd
Investment Committee Secretary

Date

Gary Dokes Chief Investment Officer	Date
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